



1201 New York Avenue, NW, Suite 1300
Washington, DC 20005
(202) 365-6436
www.bio.org

**Testimony of the
Biotechnology Innovation Organization (BIO)**

Hearing of the Connecticut General Assembly's Committee on Finance, Revenue, and Bonding
Friday, March 25, 2022

**Statement Regarding House Bill 5488 – An Act Concerning the Extension of
Research and Development Tax Credits to Pass-Through Entities**

Representatives Scanlon and Cheeseman, Senators Fonfara and Martin and Members of
the Finance, Revenue and Bonding Committee:

I submit this testimony to provide comment on House Bill 5488, "An Act Concerning the Extension of Research and Development Tax Credits To Pass-Through Entities," on behalf of the Biotechnology Innovation Organization (BIO) – a Washington, DC-based trade association representing more than 1,100 biotechnology companies, academic institutions, state biotechnology centers, and related organizations across the United States and 31 other nations that are involved in the research and development of healthcare, agricultural, industrial, and environmental biotechnology products. Connecticut's biotechnology sector is comprised of 1,349 establishments, employing 22,367 people who earn an average annual salary of \$118,238.

As Committee members are aware, last year the General Assembly approved and Governor Ned Lamont signed into law legislation increasing the research and development tax credit from 50 percent to 70 percent and phasing in the bump up over a two-year period. That positive development is the latest in a six-year yo-yo of decreasing, increasing, decreasing, and now increasing again the percent of tax liability the R&D tax credit can offset and the value it can bring to a business in Connecticut.

The Connecticut R&D tax credit generates a substantial return on investment that helps create jobs in the technology sectors, which in turn generates income tax dollars for the state of Connecticut. The credits also help to build the ecosystem of companies in Connecticut that provide goods and services to research and development companies.

BIO appreciates the willingness to expand the R&D tax credit to include S Corporations and LLCs, however two adjustments could significantly increase the value of the credit to biotechnology companies: (1) increase the cash exchange rate for biotechnology

companies from 65 percent to 90 percent and (2) increase the R&D tax credit rate from 70 percent to 90 percent for biotechnology businesses.

Currently, Connecticut companies operating at a loss may exchange the research & development tax credit for 65% of its value. This cash exchange provision is critical to early-stage development companies, especially in the biotech sector where the runway to generating revenue can be 7-10 years. In Massachusetts, biotechnology companies may exchange up to 90% of the credit's value if job creation metrics are reached. An increase in the value of the credit exchange, equal to the Massachusetts level of 90% could make a significant impact on smaller biotechnology companies that may operate at a loss for years until research and development results come to fruition. New York's cash exchange rate is 100 percent. We have enclosed an additional fact sheet comparing the cash exchange rates in neighboring states to Connecticut as well as a chart of the possible return on investment for the state.

Currently, Connecticut's R&D tax credit is accessible to C Corporations, other business entity types including S Corporations, partnerships and LLCs are not permitted to claim the Connecticut R&D credit. Whether this was due to an error in draftsmanship or an intentional omission, the time has come to allow non-corporate entities the right to claim the R&D credit. BIO supports expanding the eligible group of qualified small businesses to include S Corporations, partnerships, and limited liability corporations would allow for more growth in the life science industry.

BIO appreciates the opportunity to provide comment on House Bill 5488. If you have any questions, please do not hesitate to contact me to discuss this further.

Respectfully submitted,

Ben Chandhok
State Government Affairs Director, Eastern Region
Biotechnology Innovation Organization
bchandhok@bio.org

About BIO

BIO is a national trade organization, based in Washington, DC, representing more than 1,100 biotechnology companies, academic institutions, state biotechnology centers, and related organizations across the United States and 31 other nations. BIO members are involved in the research and development of healthcare, agricultural, industrial, and environmental biotechnology products. Biotechnology researchers expand the boundaries of science to benefit mankind by providing better healthcare, enhanced agriculture, and a cleaner and safer environment.

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